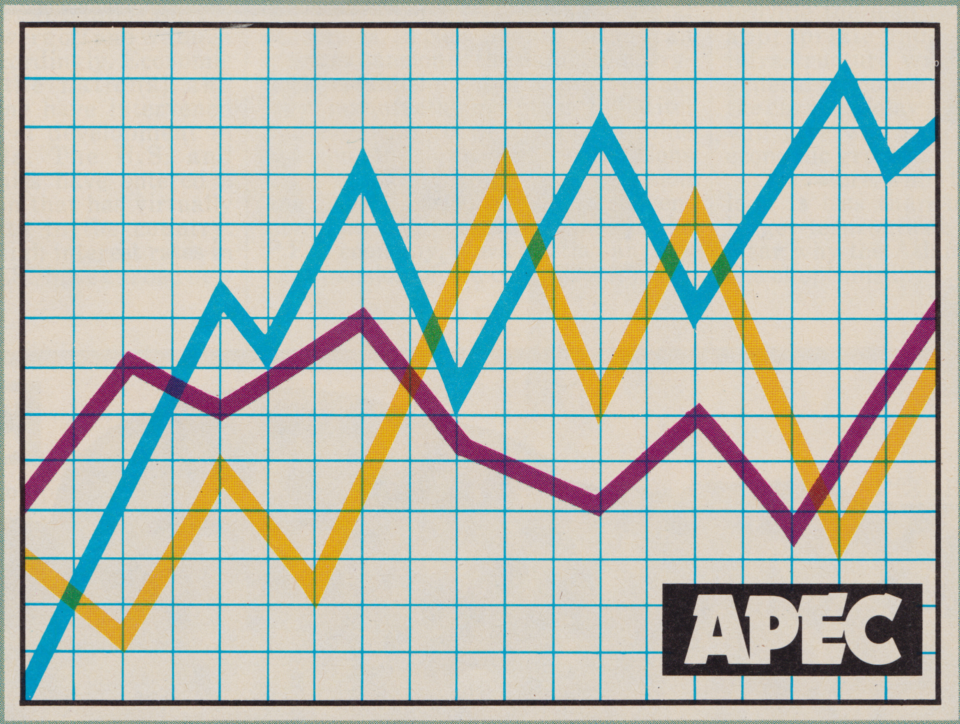
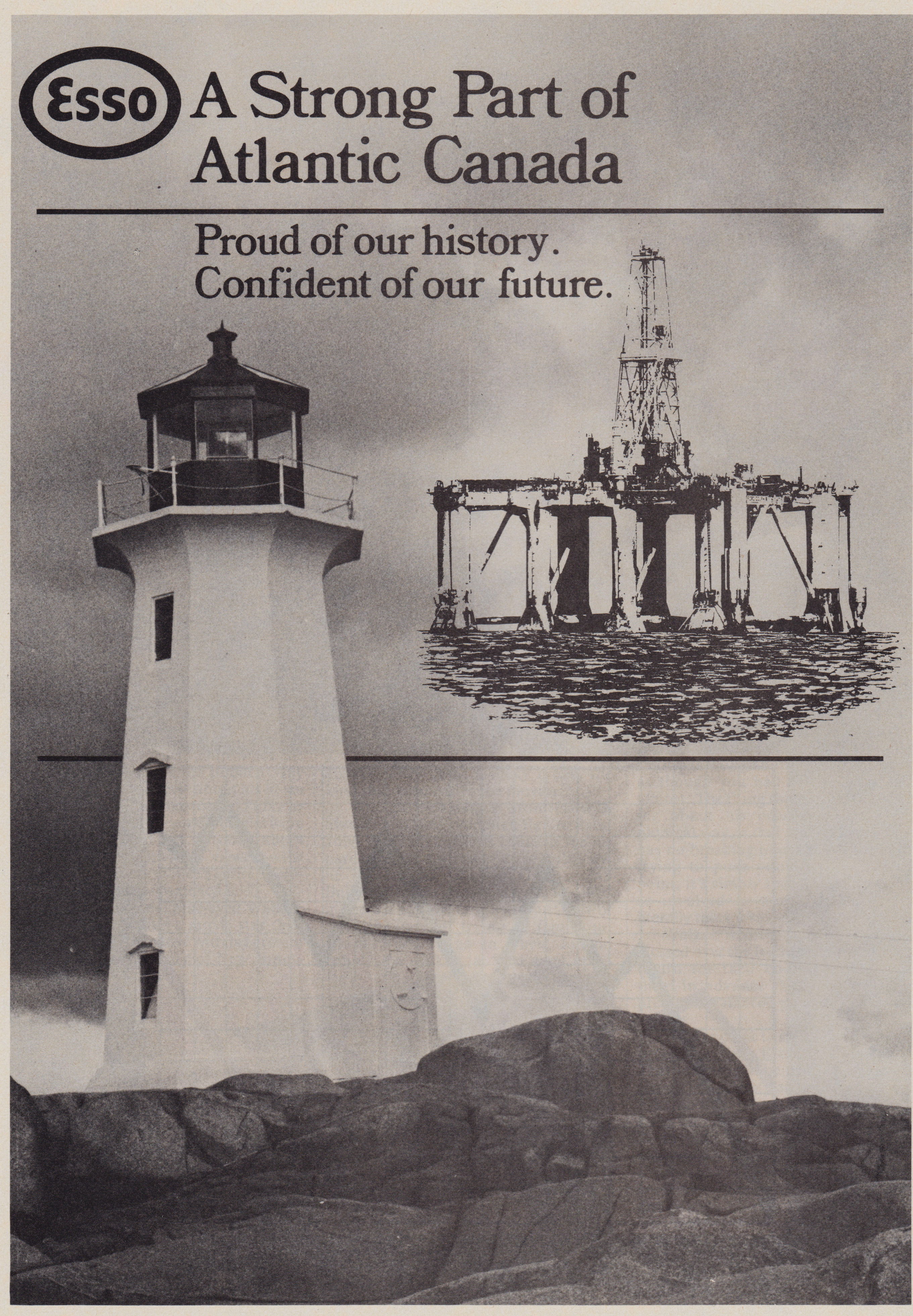
SPECIAL
PULL-OUT SECTION

Atlantic Perspective

A year-end review of the Atlantic economy in 1981 and economic forecast for the coming year, prepared by the Atlantic Provinces Economic Council.

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The Atlantic Perspective

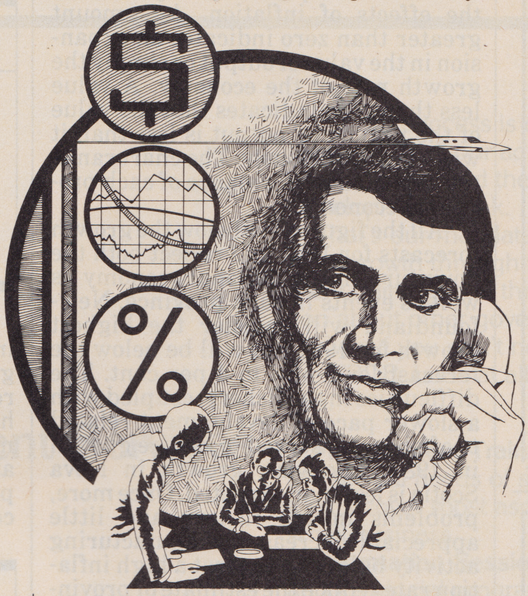
APEC Atlantic Canada '82

Expectations for the 1980s in Atlantic Canada were full of optimism. The four provincial economies performed well in 1979. With the discovery of oil off the east coast, the prevailing mood was that the dawn of the decade heralded an era of unparalleled growth. The decade was envisaged as rushing in like the proverbial March lion full of new development and riches in the region. The reality emerging as we approach the third year of the decade is that the March lion is turning out to be a lamb. In this review APEC considers firstly the performance of the provincial economies in 1981 and, secondly, the individual sectors that make up the regional economy in more detail. Finally, the future is addressed—what 1982 and beyond might bring.

Economic forecasting is a notoriously hazardous occupation. Random and unforseen events in the global scene can profoundly alter the weight and direction of predicted impacts. The information in this review was submitted for publication on November 20 last and is, to the best of our knowledge, accurate up to that date. The forecasts of the course of the provincial economies to the end of 1981 and for 1982 have been carefully weighed and discussed in light of information of that date.

The optimism entering the 1980s is still justified. The major developments regarded as the spark that would ignite a period of strong growth are still there. The expectations on the timing, however, were off and we must shift our focus accordingly. Economic conditions on the national and international scene have intervened to slow the rate of development in Atlantic Canada. The U.S. and Canadian economies have entered a period of recession that has virtually stalled all growth in the country. Policies, such as high interest rates in Canada and the U.S., have curbed new investments and consequently delayed the start of many of the major projects which were key to fulfilling the promise of the decade. Therefore, while we are on the threshold of major development projects, the broader economic conditions are postponing the expected take-off.

The traditional Atlantic resource industries (fishing, forestry, agriculture, and mining), coupled with service industries (supporting tourism and the growing population) and manufacturing (slowly beginning to replace many



of the region's imports), will continue to grow and contribute to the provincial economies. In New Brunswick one can count expansion of the Saint John Drydock, establishment of a high-technology manufacturing plant by Mitel and the opening of a major potash mine as among the significant contributions to growth. Farm production expansion and diversification, and a new convention centre will fuel the growth of the P.E.I. economy. Nova Scotia can look to expansion of the coal industry and coal-fired electrical generating stations, and expansions to their shipbuilding industry as just some of the major contributions to growth. Expansion of oil industry operations in Newfoundland and development of its major hydroelectric projects will help carry its economy forward through the decade. Without belabouring the point, the decade ahead holds opportunities for real growth in all four Atlantic provinces.

The expected growth will not be instantaneous. Rather, it will be a slow process extending over a period of time. Economic disparity between this region and the rest of the country will continue for some years. But the developments envisaged for this decade and the next will make a significant contribution to the elimination of regional inequalities.

While it is disappointing that the developments for the 1980s haven't materialized in quite the fashion anticipated, the slow start has some positive benefits. It will allow the Atlantic community to plan better, and to position themselves to capture the widest range of benefits from development. It will allow Atlantic businesses to assess their positions fully and to chart their courses. It will allow governments and educational institutions the opportunity to establish the training programs necessary to ensure the maximum participation of the region's labour force. It will provide the lead time to develop the appropriate industrial and social infrastructure within the region. As general economic conditions improve, the current delay in the major projects will give way to a period of strong economic growth.

Therefore, while the short-term outlook is less than bright, when the longer-term outlook is considered, it is clear why the Atlantic Perspective is one of optimism. ■

How the provinces rank in 1981.

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There are a number of ways to compare the performance of the four provincial economies. We have chosen four indicators that allow us to take the economic pulse of the provinces. These are the gross provincial product, change in employment, retail sales, and the consumer price index.

The most common basis for comparison is the gross provincial product of each province. This is essentially a measure of the total value of output of the individual provinces adjusted for the effects of inflation. An amount greater than zero indicates an expansion in the value of output or simply the growth rate of the economy. A value less than zero indicates that the value of the provinces' output is less than it was a year previously. The chart ranks the expected performance of each provincial economy.

All the figures are below the growth forecasts for 1981 and reflect both the downturn in the national economy as well as events in each province. Newfoundland will register the highest growth for 1981 but will be below the forecast level of 3 to 4 per cent. The difficulties in the fishery, coupled with a slower pace of development related to offshore oil served to reduce growth in 1981. Likewise, growth in Nova Scotia is less than expected. Once more, problems in the fishery and little appreciable increase in manufacturing activity balanced against a high inflation rate reduce the estimate of provincial growth from the expected level of over 3 per cent. New Brunswick's projected growth was affected by a slowdown in the forest industry, for both pulp and paper and the lumber trade. Therefore, the N.B. growth is not expected to live up to the original estimates of a 2 per cent in real terms. Despite a reasonably good year for agriculture, the disappointing performance of the construction sector, again balanced against a high inflation rate, indicates that the P.E.I. economy will exhibit no real growth in 1981.

1981 % Change in Real Gross Provincial Product	
Newfoundland	2.0
Nova Scotia	1.5
New Brunswick	1.0
Prince Edward Island	0.0
Canada	2.0

Another broad indicator of economic performance is employment, the rate at which new jobs are created in the economy. The chart compares the growth of employment in the region, again projected by APEC to the year-end.

New Brunswick is expected to lead the region in growth of employment, at a little less than the predicted national average. Newfoundland had a strong first half-year but employment has dropped as a result of the prolonged fish plant shutdowns. The P.E.I. labour scene is anticipated to remain static for the year. Nova Scotia will register a modest increase in employment.

1981 % Change in Employment	
New Brunswick	2.4
Newfoundland	2.2
Nova Scotia	1.2
Prince Edward Island	0.0
Canada	2.7

When adjusted for the impact of inflation, retail sales show no real growth in any part of the Atlantic region for 1981. On the national scene, however, there is expected to be a modest 2 per cent growth. The charts also rank the provinces in the consumer price index which is the widely accepted measure of the rate of inflation.

1981 % Growth in Retail Sales	
Newfoundland	-1.0
New Brunswick	-0.2
Nova Scotia	-1.8
Prince Edward Island	-3.4
Canada	2.0

1981 % Change in Consumer Price Index	
Nova Scotia	12
New Brunswick	12
Newfoundland	13.4
Prince Edward Island	13.8
Canada	12.8

Considering the rate of inflation, both island economies are expected to have the highest rate of inflation in the region by year-end. Nova Scotia and New Brunswick may, however, finish the year with an inflation rate below that of Canada.

Down-to-Earth Prospects

Total farm cash receipts approached record levels for the three Maritime provinces to the end of August, over the same period in 1980. Almost $400 million had been taken in by farmers, up by one-third over a year earlier. There are still significant receipts to come from several cash crops, notably apples and potatoes, before the end of the year. By the end of 1981, Maritime farmers should be well on the way to meeting the "Billion Dollar Challenge" put forward by the Maritime Farmers Council two years ago.

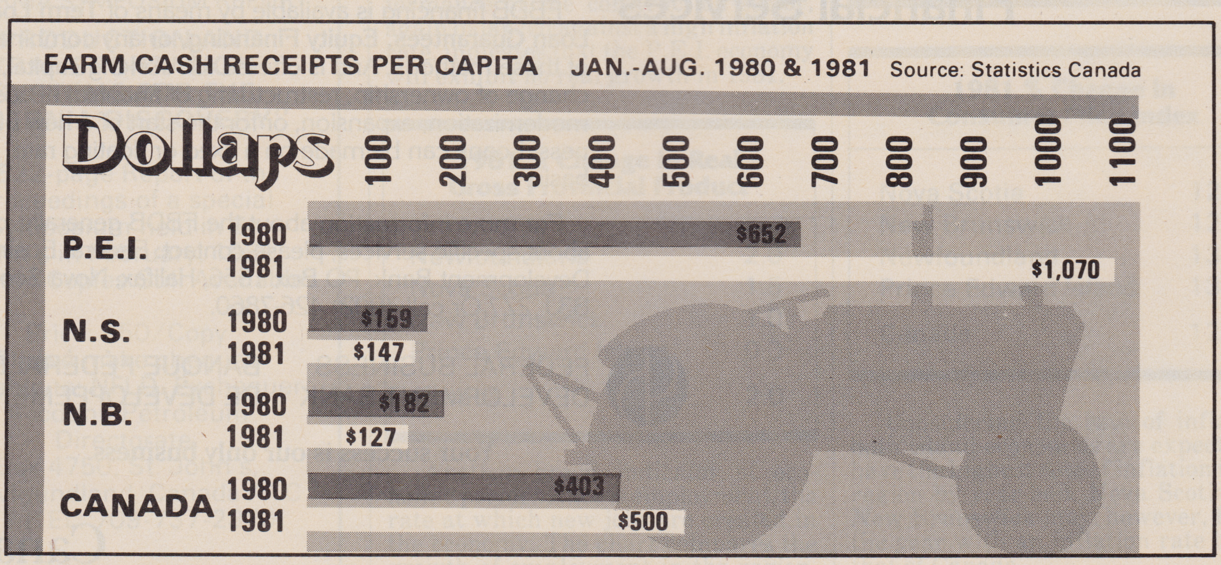
Higher cash receipts, however, are only one side of the story. The costs of producing are also much higher, particularly in a year of record high interest rates. Most farmers must borrow to plant and care for their crops, or replenish their herds. The extra costs resulting from having to pay more for money means, for example, that beef farmers have been unable to bring their herds to optimum size, indeed have been selling animals prematurely to meet payments. Or potato farmers, who generally move their product to market over the winter months as prices rise, will be selling earlier at lower prices, also to meet payments. Needless to say, at some stage the consumer will be faced with higher food prices.

These considerations are reflected in the fact that although cattle slaughtered at Atlantic plants were down by only 1 per cent by the end of October over the same period last year, receipts from these sales were down by more than 10 per cent. Hog farmers responded to a significant strengthening of prices after April by sending more

animals for slaughter. By the end of August, numbers were up by 9 per cent and receipts were up by 31 per cent over the same period in 1980.

All major cash crops had at least an average year. Although the Annapolis Valley apple crop was reduced slightly by late spring frosts, prices were significantly higher because of substantial winter damage to Quebec orchards, and crop reductions in parts of the United States. The potato acreage in both Prince Edward Island and New Brunswick increased after poor yields (and therefore higher prices) in 1980. Harvest was delayed by wet weather, but was largely in by the end of October and yields were substantially back to normal. Island production will exceed 15 million hundredweight; New Brunswick production will be almost 13 million hundredweight.

Nova Scotia's blueberry growers continue to generate handsome export earnings, although Newfoundland's producers had a disastrous year. In Nova Scotia not only was the crop up substantially (by about two-thirds over



Agriculture

1980) but prices were higher too. About 80 per cent of the production will be exported outside North America. The growth in Nova Scotia's blueberry industry since the mid-1970s has been little less than spectacular. Total production in 1981 amounted to almost 13 million pounds. The European market is still growing, but even more encouraging is the growth of the Japanese market. A series of trade missions formed the backbone of an aggressive marketing strategy since the late 1970s and the success of this strategy was unexpectedly swift. More missions are planned, including one this winter to Japan and Korea. The one complaint about this success story seems to be, however, fewer berries available in local markets.

The outlook for Atlantic agriculture is promising. The federal government's 1981 discussion paper "The Challenge of Growth: An Agri-food Strategy for Canada" foresees an era of export-led growth for the nation's farmers. For the Atlantic region this must first translate into producing more of its own food. A series of federal-provincial development agreements recognizes this. Of particular interest is an agreement to develop agriculture in Newfoundland. At first glance, farming the Rock does not appeal to many people. There are few areas of mineral soils and the climate is not favourable. But the position of the province at the end of North American supply lines has prompted a renewed quest for some degree of self-sufficiency. Since the mid-1960s, the area of improved land has increased from about 8,000 hectares to well over 11,000 hectares, and there are now more than 400 farms in Newfoundland. The Agricultural Development Sub-Agreement was signed in 1979. The extensive peat deposits on the Avalon Peninsula are being adapted to grow vegetables using a sophisticated manipulation of water levels in the peat—it amounts to large-scale open-air hydroponics—and there is a determined effort to protect the few areas of mineral soils from other types of development. Don't look for great decreases in food prices though—in October, 1981, a weekly food-basket for a family of four, standardized across the country, cost $87.42 in St. John's as opposed to $81.60 in Halifax and $79.78 in Montreal.

Presently, the region is less than 40 per cent self-sufficient in commodities (such as beef, pork, vegetables, and most feed grains) we can grow well locally. The land-base to accommodate growth seems adequate and there are good research and experimentation facilities. There is also an increasingly sophisticated and more highly trained set of young farmers entering the industry. As with many other parts of the Atlantic economy, the promise is there; taking advantage of opportunities is the challenge. ■

entrepreneur

en·tre·pre·neur (än′trə prə nur′) *n*

a person who organizes and manages a business undertaking, assuming the risk for the sake of the profit.

— Webster's Dictionary

Characteristics of an Entrepreneur:
independent, risk-taking, pro-active, self-confident, hardworking, self-starting, inventive, adaptive, farsighted, ingenious, outgoing, enthusiastic, hard-nosed, optimistic, tough-minded, opportunistic, able to plan, motivated by challenge, swift to recognize ability in others, a seeker of information, able to accept advice, a good listener, ready to form a team approach to problem solving.

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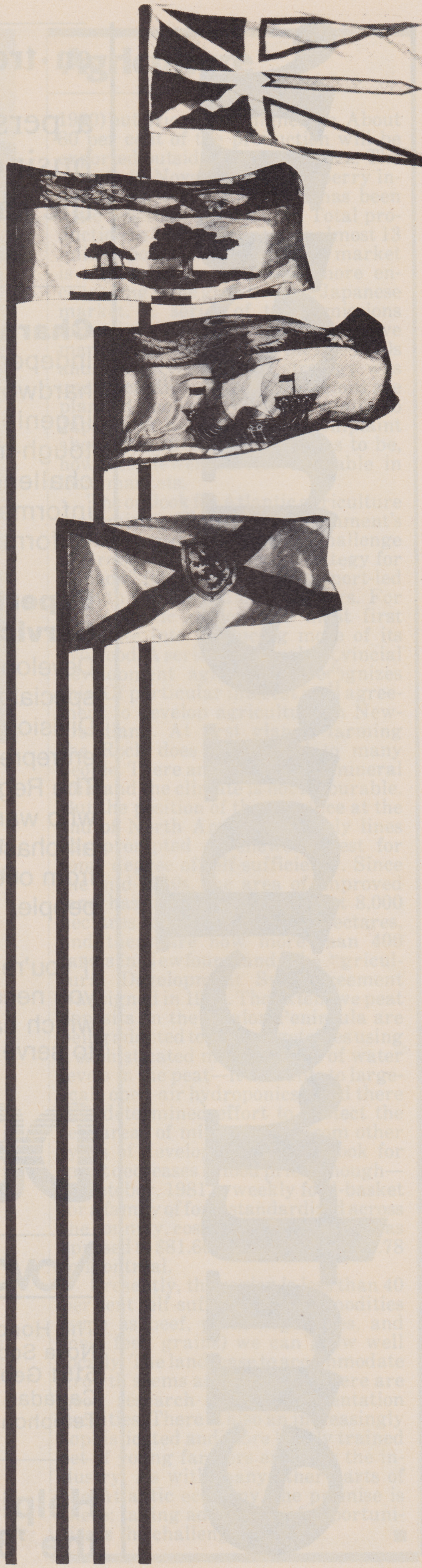


Lost in the Woods?

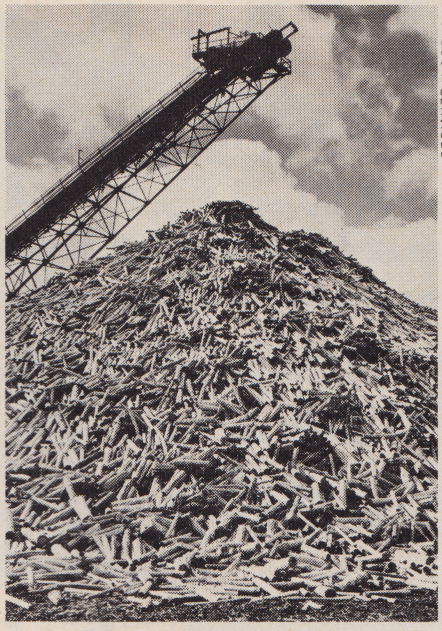
DAVID NICHOLS

To this traditionally strong resource sector, the 1980s bring a mood of uncertainty. For pulpwood production, there are visions of rising costs, aging mills, intensified competition, and fewer trees. For lumber producers, high interest rates spell disaster.

Pulpwood production was down in the first eight months of 1981 by 2 per cent. This was mainly due to a hefty decline in New Brunswick's output by almost 9 per cent. In Newfoundland, Abitibi-Price began newsprint production this year from the converted Labrador-Linerboard Mill at Stephenville. Nova Scotia's output was also up. Newsprint production also increased, reflecting the addition of the Stephenville capacity.

Mere statistics, however, cannot tell the whole story. In particular, the supply of pulpwood in New Brunswick and Nova Scotia is at risk. The combination of spruce budworm and general neglect of silviculture on lands leased from the Crown means that the supply of trees is running out at a time when the global demand for newsprint is expanding constantly. Stiff competition from "tree farmers" in the south-eastern United States also means that "tree mining" in eastern Canada is less and less practical.

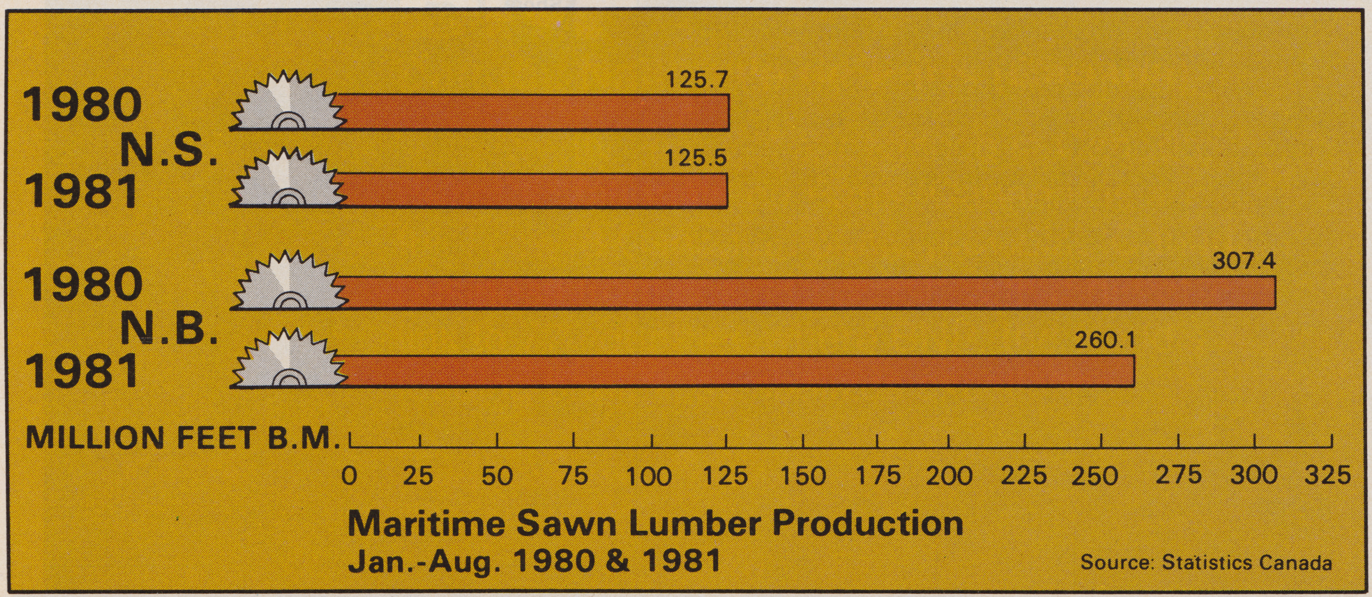
Widespread spraying against spruce budworm took place in 1981 in New Brunswick and Newfoundland. In Nova Scotia the controlled spraying of about 32,000 hectares also went ahead, although late in the year came the encouraging news that only about 700,000 hectares were defoliated in 1981 as against almost 1.4 million hectares in 1980 and almost 1.1 million in 1979. Particularly in Cape Breton, it seems the pest is well on the way to eating itself out of house and home. Silviculturalists indicate at least 30 years before the damaged woods in Cape Breton regenerate to a commercial level, and even this assumes no other severe infestation or other calamities.



N.S. GOVT SERVICES

Aging pulp mills are more of a problem in New Brunswick than elsewhere in the region. Two of the three major Nova Scotia plants are fairly recent constructions and, to add to the new Stephenville plant, Bowater is modernizing its Corner Brook mill. In New Brunswick the St. Anne-Nackawic mill has recently received a $5-million public incentive to aid in modernization, and a total of $62.2 million will be spent over the next five years on this mill. All in all more than $42 million of federal and provincial money has been set aside to modernize mills in New Brunswick up to 1985. A similar agreement for $21.4 million is under way in Nova Scotia.

Sawmills in New Brunswick and

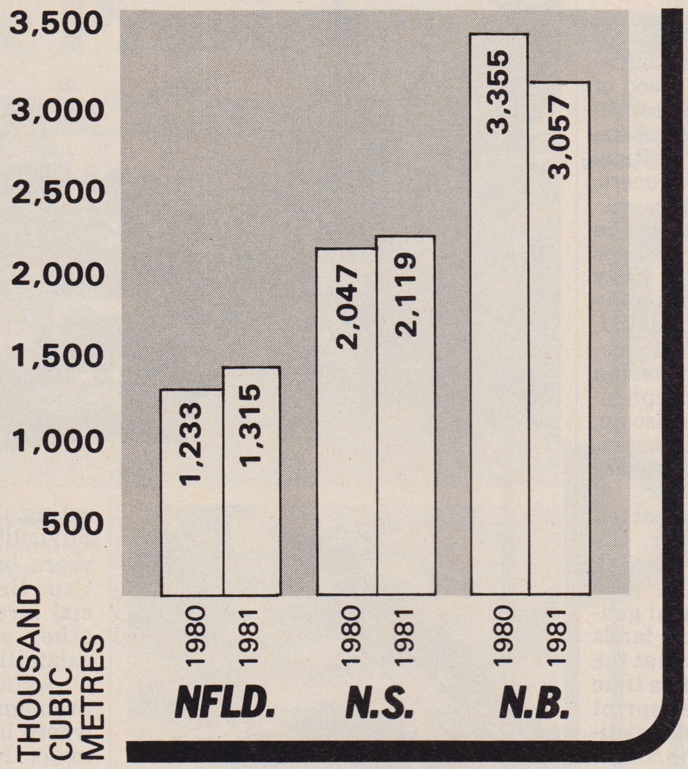


Maritime Sawn Lumber Production
Jan.-Aug. 1980 & 1981

Forestry

Nova Scotia held their own with only modest declines in output up to September. Then the bottom fell out of the market as high interest rates began to be felt by construction in the two major export markets of the northeastern states and western Europe. The lumber industry is used to a goodly share of peaks and troughs, but the present precipitous decline tests even the memories of old-timers in the industry. About one-fifth of Nova Scotia's production goes to the United Kingdom, and more than a third of New Brunswick's production goes to the United States. The Maritime Lumber Bureau estimates total production from both provinces is down by 30 per cent in the final quarter of the year, and is likely to stay that way until American and European dealers begin to restock, probably around next summer. Housing construction in the U.S. is significantly lower this year, which accounts for a large part of the New Brunswick decline, and the revaluation of the Canadian dollar relative to some European currencies in 1981 helps explain Nova Scotia's hard times. The present dip in activity means the loss of about 1,500 jobs by Christmas in the two provinces.

PULPWOOD PRODUCTION (DOMESTIC USE)
JAN.—AUG. 1980 & 1981 Source: Statistics Canada



There seems to be a mixed outlook for both the pulpwood/newsprint and the sawmill sector. In the shorter terms, the lumber producers will probably reopen mills and begin selling again as interest rates decline. Newfoundland's newsprint producers, in particular, have been finding new markets in the Far East. Over the longer term, however, scarcity of trees will be the single determining factor in the survival of the Atlantic region's forestry-based industries. The present favourable position of the Canadian dollar helps newsprint producers hold their own, but increasingly stiff competition from United States and western Canadian producers may result in a major rationalization of the Atlantic region's industry. ■

The Fishery

Heavy Weather

Nineteen eighty-one will not go down as a banner year for the fishing industry in Atlantic Canada. Headlines, almost daily, chronicled the industry's problems, with symptoms everywhere. Plants have been closed, workers laid off, boats tied up, strikes have become common, and representatives of both inshore and offshore interests are at odds with the federal controlling agencies.

Common problems of high interest rates, shrinking export markets, labour unrest and higher costs of operation face all parts of the Canadian economy. The nature of the fishing industry itself involves other problems; low levels of some stocks, gluts of catches in others, declining fish consumption patterns in the United States (the market for 80 per cent of Atlantic Canada's fish production), increasing competition in the traditional American market, problems of quota allocations, and problems of rapid uncontrolled expansion of effort. All these factors, in combination, are squeezing everybody from the smallest fisherman to the largest processor.

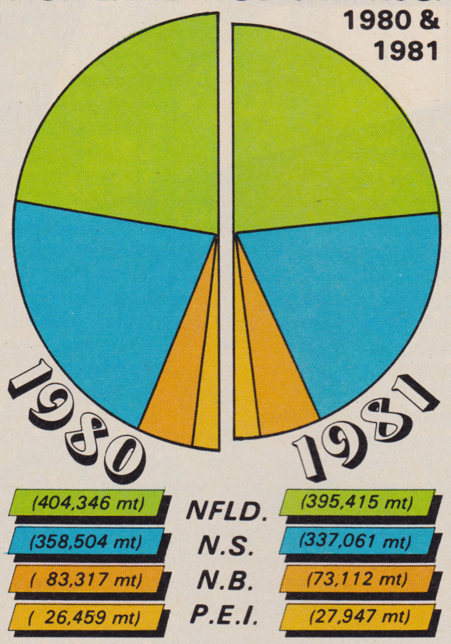
High interest rates have taken their toll throughout the industry. Small fishermen cannot afford payments on boats built often with subsidies or easy loans. Usually, too, their catches are down as the fleet has expanded since the 200-mile economic zone was declared in 1977. Processors are faced by expensive inventories as markets have declined, forcing expensive processing facilities to lie idle. In general, Atlantic region fish plants have been suffering from falling profit margins. From 1973 to 1978, gross margins at the plant dropped by 5 per cent, while the consumer price index rose by almost 60 per cent. Over the same period, processing costs for cod blocks (a major export) rose 126 per cent, including a 150 per cent rise in manufacturing overhead, a 100 per cent rise in packaging costs, a 300 per cent rise in direct labour costs and a 140 per cent rise in the cost of raw materials. Prices of the finished product have also risen, but not to the same extent as costs. In addition, high wholesale prices for fish have contributed to a slackening in demand.

Markets have also declined in Europe. Gains were made in Britain and Germany in the mid-1970s with favourable exchange rates, depleted European stocks, and expanded marketing effort. The exchange rates are no longer so favourable and tariff barriers to protect domestic fisheries are difficult to overcome.

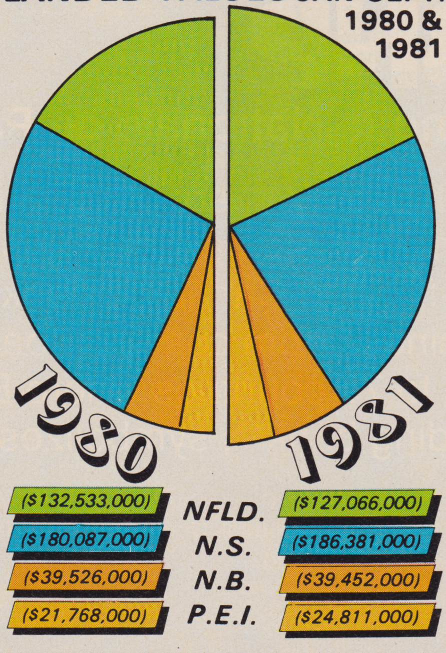
Strikes in the fishing industry echo the general mood of uncertainty. They are usually over two major issues; higher fish prices, and larger quota allocations. These labour actions brought limited results as companies could not pay higher prices and biologists could not squeeze more fish out of depleted stocks.

Prices to fishermen were low as companies' net revenue was squeezed between reduced demand for fish products and higher operating costs. The high and unavoidable energy costs of harvesting the resource are particularly troublesome. Large trawlers must travel increasing distances to fill their holds. Delegates to an energy efficiency

FISH LANDINGS JAN.-AUG. 1980 & 1981



LANDED VALUES JAN-SEPT. 1980 & 1981



seminar held in Halifax early in 1981 were told that vessels which can only catch 20 pounds of fish per gallon of fuel would probably be forced out of the fishery. The recent increase in fuel prices may bring some vessels to this danger point.

Other major problems include current low levels of some stocks. Total catch is below last year's levels in all provinces (based on January-September landings) and for some important species, such as herring, catches are well below normal. Inshore fishermen in Newfoundland have been hard hit by low catches in the last two years; last year there was strike action, and this year there were irregular migratory habits of the cod. The Gulf of St. Lawrence herring fishery remains closed indefinitely. The future of the scallop fishery, Nova Scotia's most valuable catch, rests on a decision on the Georges Bank boundary issue. Failure to ratify a negotiated treaty has led to a build-up of American fishery effort to the point where the future of the resource is in jeopardy.

In contrast, there are gluts of some species such as cod and haddock due to large catches early in the year. Prices in foreign markets, accordingly, are low, and inventories high. The seasonal glut, because of large summer catches by the inshore fleet, is equally to blame. A major problem with these gluts is a serious processing over-capacity. Plants run at capacity for only a few months of the year, then lie idle with workers laid off.

American fish consumption has also been falling. As long as fish was a low cost source of protein, markets were assured. This is no longer the case, and presently, most meats (beef, pork, chicken) tend to be less expensive to the shopper than fish. Restaurant sales, accounting for 60 per cent of fish products eaten, are also down.

As the market shrinks, competition is becoming more intense. The Americans are rapidly expanding their own fishing effort. The vast Alaskan pollock potential presents a real danger to traditional Canadian markets and even though the Canadian product is still preferred, it cannot be expected to withstand forever the threat of cheaper substitutes.

Declaration of the 200-mile economic zone in 1977, gave hope for tremendous potential. The headlines then were full of promise, and the fishing industry was the phoenix that would rise from a struggling economy and lead the Atantic provinces to a brighter future. This potential was never realized. Inshore fleets expanded beyond their capacity for efficiency. Processors opened new seasonal plants tying up expensive capital, and company fleets expanded their catching

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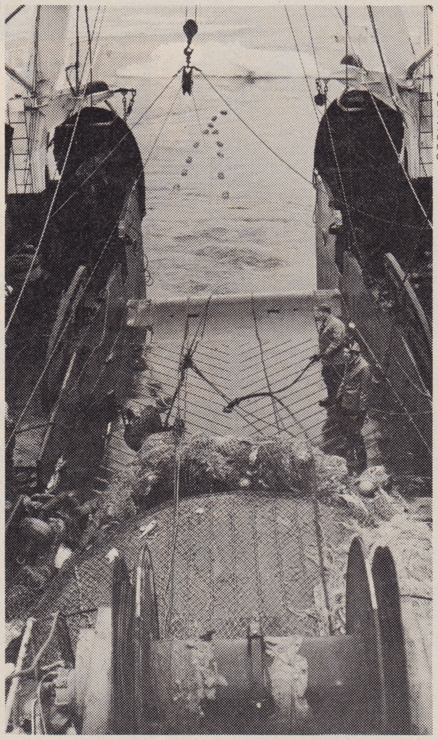
Fishery



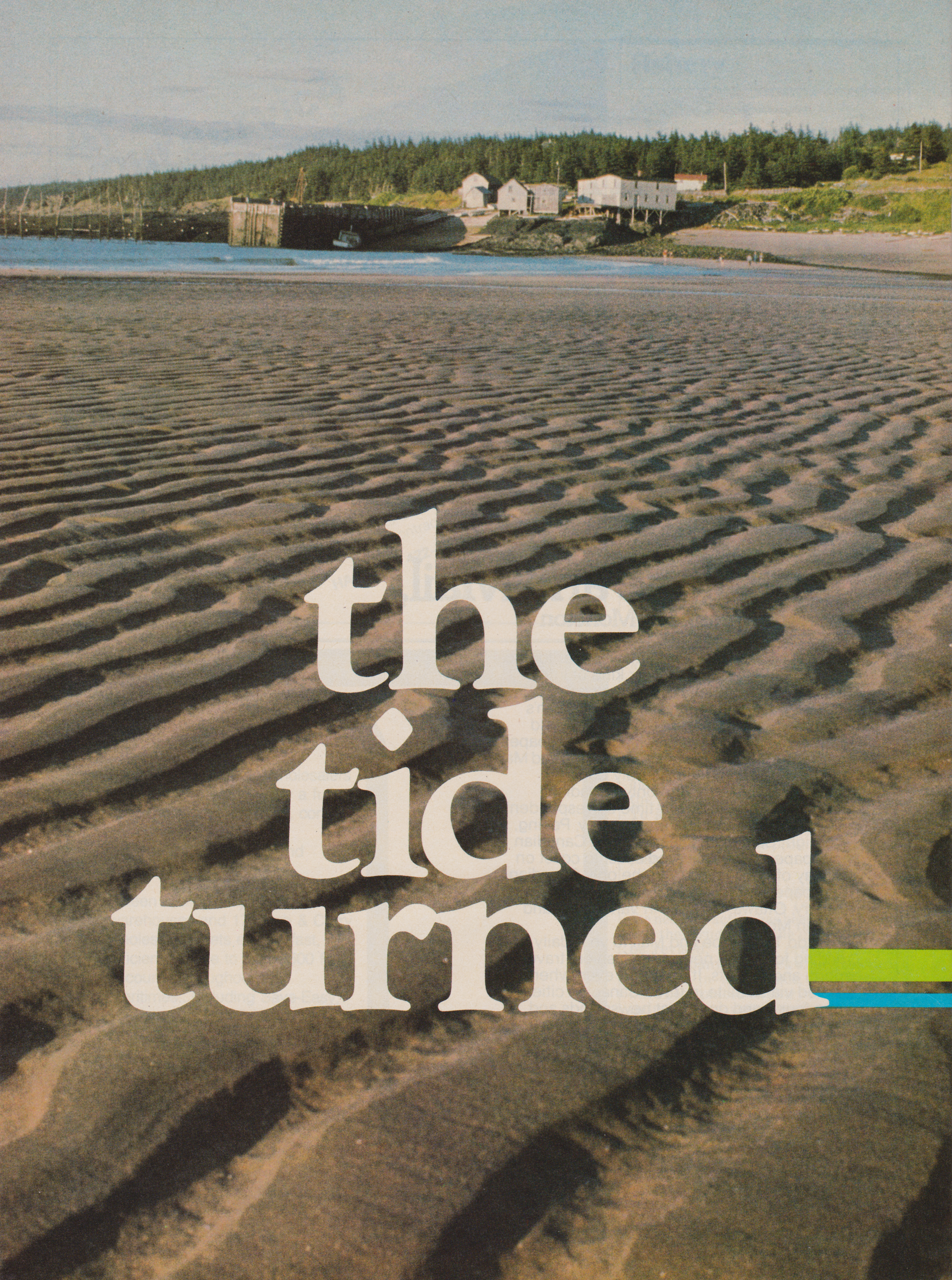
N S GOVT SERVICES

capacity to the point where traditional fishing strategies ensured gluts on the market and lower stocks of many species.

The evidence of these mistakes is clear; plant closures, record company losses and fishermen in danger of losing their boats. It is difficult, therefore, to separate the performance of the sector in 1981 from these more deeply seated developments. Landings were slightly down, landed values were slightly up to the end of September over the same period in 1980. Most of the news about closures occurred in the second part of the year as inventory levels piled up. To add to the industry's woes, plant fires took their toll in Nova Scotia, including one at the province's biggest plant.

Amid all these bad tidings, there is room for optimism. To some extent, the need for action has been recognized, and the structure of the industry must be revised. Ideas of property rights and company fish stock allocations are growing in acceptance. Restrictions have been placed on entry to the fishing industry and vessel replacement has been regulated in hopes of preventing further over-capitalization of the inshore fleet. Quality improvement measures are being taken, interest rates are easing and, perhaps most basic to the future of the industry, the fish stocks are recovering.

It seems certain that the fishery will survive as an industry. Few people, however, seem to doubt that it will be somewhat changed. The industry will remain a staple of the region, and part of this heritage will, of course, be its problems. ■



the tide turned

Mining

APEC
Atlantic Canada '82

Digging for growth

DAVID NICHOLS

Today mining may rank behind forestry and fishing in terms of output and employment but the long-run outlook is for this sector to improve its position in the Atlantic economy. The Atlantic region presently accounts for about 15 per cent of the Canadian total mineral production and employs about 15,000 people. However, while the long-run outlook, especially for this decade, is bright, current economic conditions paint a dark picture. Base metal prices are low compared to this time last year, and inventory levels are as lean as possible, mainly because of a generally slow international economy. Many of the minerals produced by this region are used as inputs to produce higher priced consumer goods (such as appliances and cars), or in the housing industry. If borrowed money is used to buy these items, then higher interest rates mean less buying. This lower level of demand filters down to the mines and quarries of Atlantic Canada.

Labrador iron ore production to the end of September, 1981, was slightly up over 1980 by 1.7 per cent. There was, however, an extended shutdown of operations in mid-1980 which severely reduced output during that year. In line with iron ore, the output of base metals (such as zinc, lead and copper) was also just above last year's levels. This is mostly the result of a decline in demand starting last summer. However, industry officials anticipate that only a slight rise in base metal demand will have a strong upward impact on prices and production as inventories recover from their present low levels.

The available information on production levels for other mineral products reflects some differentials in the level of output for 1981. Gypsum production is down marginally compared to the third quarter of last year because of depressed U.S. housing markets. Salt production is also down, probably due to carry-over in inventory in foreign markets from last winter, resulting in lower demand this fall.

One mineral that is enjoying renewed popularity in 1981 is coal. Production is closely associated with power generation, and the current upsurge is based on the need to replace more expensive imported oil. A lengthy strike last summer in Cape Breton, however, means coal output should be down for Nova Scotia in 1981.

The optimistic outlook in the long run is based on higher levels of exploration activity in 1981. In recent years, exploration expenditures in the region have been in the area of $15 to $20 million per year. Total active claims for exploration in the region to the end of October, 1981, are up by 30 per cent with particular interest in Newfoundland and Nova Scotia. An extensive testing program is forming part of a search for uranium in many parts of Nova Scotia.

This high level of exploration activity will probably continue at least for the next couple of years and along with improvements in world market conditions could lead to more new mines. Present mining developments are already generating excitement in New Brunswick. The Potash Company of America's new facility at Sussex is well on the way to beginning production with start-up scheduled for 1983. Both Denison Mines and BP Canada are also involved in potash exploration and development in the area. Late in the year, too, came the announcement of a new $360-million zinc smelter at Belledune to begin construction next May, and to begin production in 1984, creating 400 new jobs in the area. And in Nova Scotia, Shell Resources continues its search for economically recoverable reserves of tin with encouraging results to date.

The outlook for 1982, is for exploration activity to continue at high levels, and for production levels to follow the path of the economy closely. If economic conditions improve next year, recent low inventory levels mean production levels should increase quickly and return to upward movement and growth. ■

Energy

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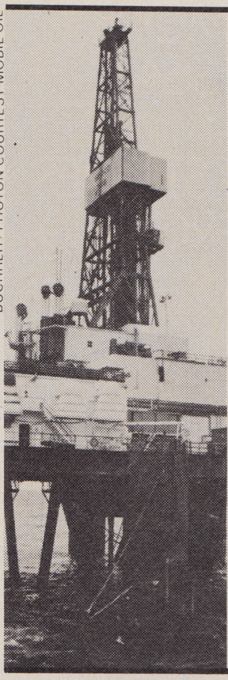
Still fired up, but it'll cost

On the national scene, the year in energy was dominated by the National Energy Programme of October, 1980, and the subsequent negotiations on energy pricing which occurred between Ottawa and Alberta. Resolution of long-standing conflicts between these two major actors paved the way for negotiations with other actual and potential energy producing provinces including Newfoundland and Nova Scotia. The September 1, Energy Pricing Agreement established a schedule of prices up to 1986, which will influence development of offshore hydrocarbon deposits.

Offshore exploration activity continued with major interest on the Grand Banks, the northeast Newfoundland Shelf, the Labrador Shelf, and the Scotian Shelf. Drilling took place at 15 sites up to November. Between January and September more than 32,000 metres were drilled, an increase of almost 60 per cent over the same time in 1980. On the Hibernia structure, Mobil (on behalf of its exploration partners) recorded flow from three delineation wells, including one of 4,642 barrels per day at the K-18 location in October. The drilling rig formerly at the site has since moved to a new wildcat site close by, named West Flying Foam. A recent addition to the drilling rig fleet arrived in Halifax from the Mediterranean in November; the Bredford Dolphin was to be renamed Bow Drill I, and the semi-submersible rig will drill under lease to Petro-Canada close to Sable Island, the first venture of the state-owned corporation in this area.

The $350 million spent on offshore exploration activities in 1980 was likely at least to be matched in 1981; estimates indicate about $307 million being spent on drilling work, and a further $53 million on seismic research on the Grand Banks alone. The year also provided a wealth of diversity in other energy-related projects in the Atlantic region. Nova Scotia continued its switch away from electricity generated by expensive imported oil to coal-powered stations: the Lingan II project in Cape Breton began producing power, and construction of Lingan III is well under way. Plans for Lingan IV were announced to begin power production in 1984. Newfoundland's hydro production will shortly be supplemented by the Salmon River projects, with prospects of work beginning at Muskrat Falls or Gull Island still depending on marketing arrangements and financing. Construction also began on the Cat Arm project on the Great Northern Peninsula with a 127-megawatt potential. The chequered story of the Point Lepreau nuclear development continues, with an application presently before the National Energy Board to export surplus power to New England. As well, work continued on the Annapolis Basin Tidal Power Pilot Project.

In spite of all this work and the variety of future potential, Atlantic electricity generation remains largely unchanged from patterns established over the past few decades. Newfoundland's prodigious hydro potential already provides almost all the province's electricity with an appreciable amount for export. Prince Edward Island still relies exclusively on imported oil to generate power, although Nova Scotia's



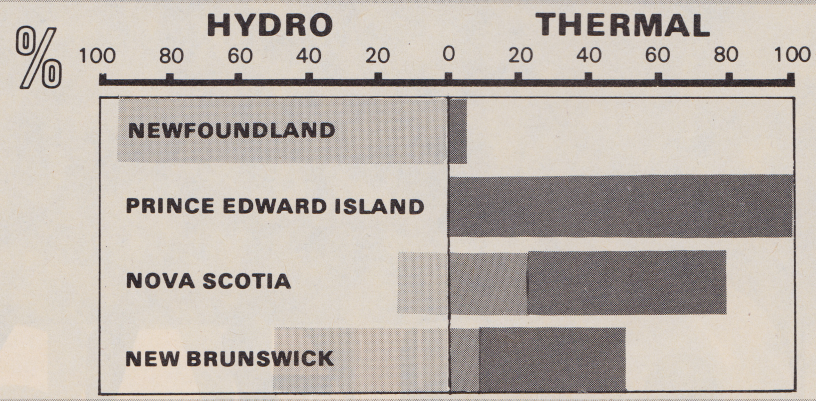
BUCHHEIT/PHOTON COURTESY MOBIL OIL

Offshore Drilling Activity 1981

AREA	WELL	SPUD DATE	STATUS (Nov. 1981)
Sable Island	Venture B13	Pre-1981	▲
	Venture B43	June	□
Grand Banks	Hibernia B08	Pre-1981	●
	Hibernia G55	Pre-1981	○
	Hebron I13	January	●
	South Tempest G88	January	●
	Hibernia K18	March	●
	Nautilus C92	October	□
	West Flying Foam L23	November	□
N.E. Nfld. Shelf	Sheridan J87	June	□
Labrador Shelf	Rut H11	July	△ (weather)
	Bjarni 082	June	○
	N. Leif I05	July	○
	N. Bjorne F06	July	△ (weather)
	Corte-Real P85	September	△ (weather)

Legend: ● Oil flow; ○ Abandoned; △ Suspended (reason); □ Drilling; ▲ Gas flow

SOURCE: *Oilweek*



Electrical energy generation by principal fuel type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That means that sometimes we're working 40 miles out in a storm tossed sea. And other times we're working 20 stories up in a mahogany boardroom.
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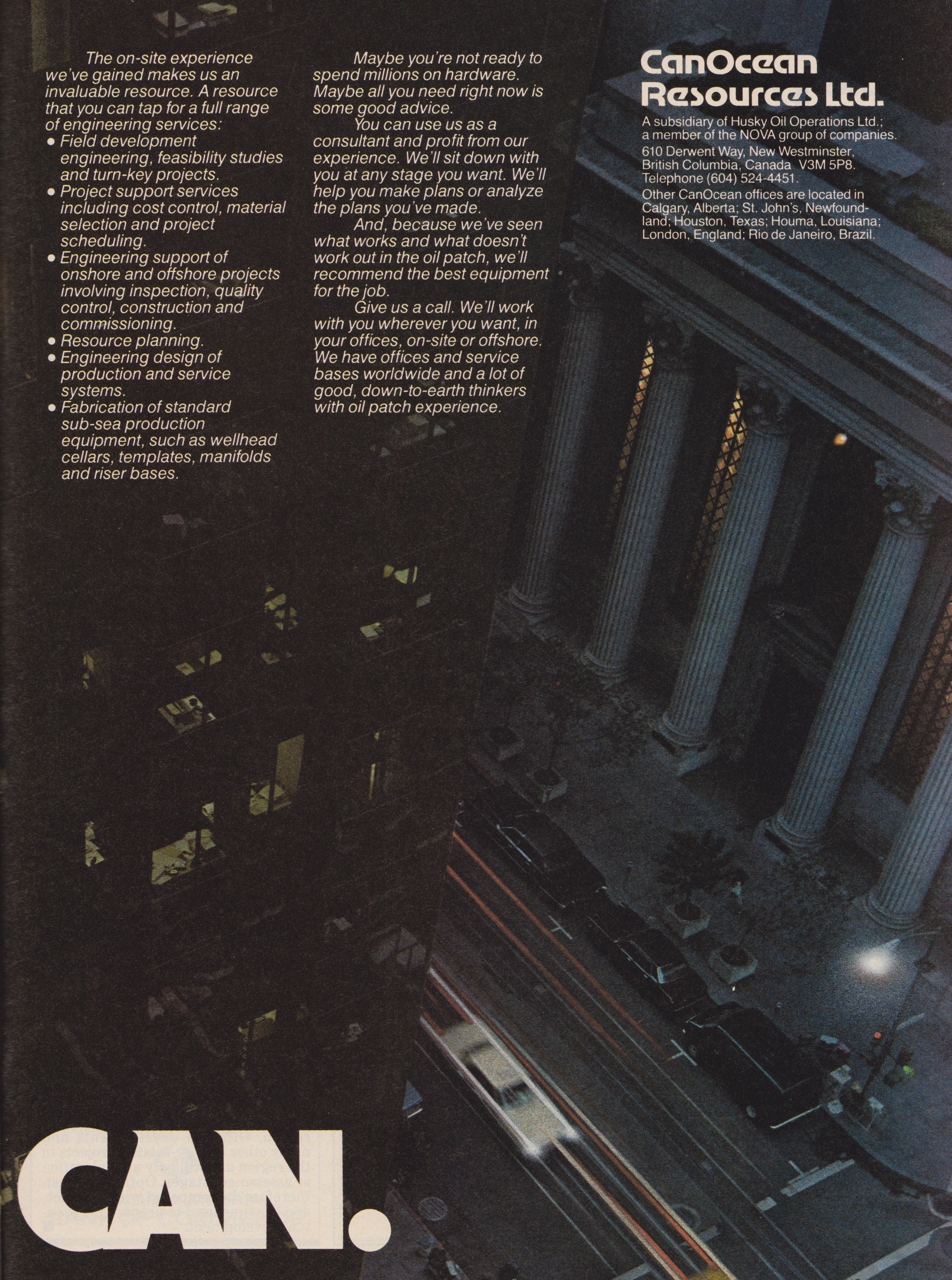
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• Resource planning.
• Engineering design of production and service systems.
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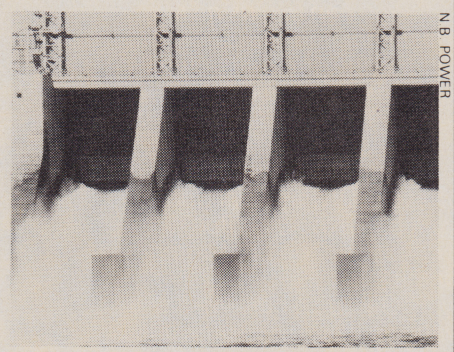
CAN.

reliance on this source is declining as Cape Breton coal takes over. New Brunswick gets half its requirements from hydro, a self-sufficiency ratio which is likely to increase when Point Lepreau begins operation.

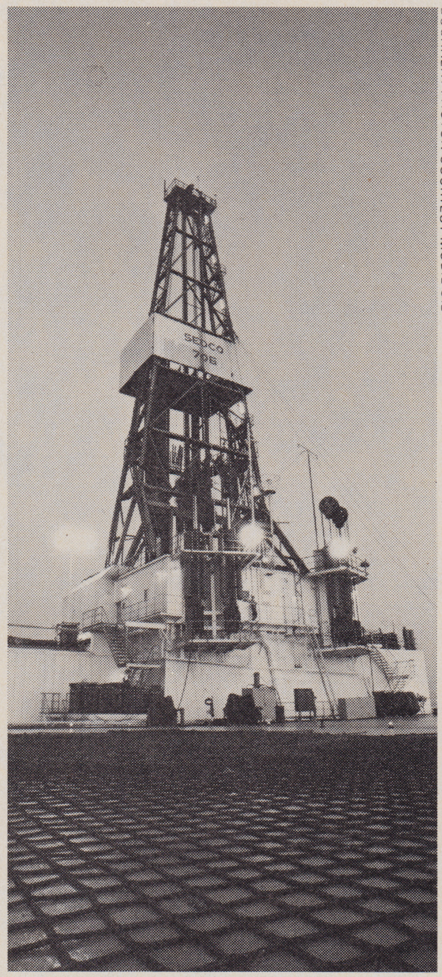
Other new twists were added to the regional energy picture in 1981. The consideration of a liquefied natural gas terminal at the Strait of Canso, with an alternative site also under consideration in Quebec, would use Arctic gas. The LNG would be shipped



N B POWER

from the eastern Arctic in specially constructed tankers with ice-breaking capabilities for regasification at this facility before distribution.

The National Energy Board granted permission to extend the natural gas pipeline eastwards from Montreal through New Brunswick to terminals at Sydney and Halifax. Financing for this size of project poses immense problems in times of high interest rates, and the project is still in the most preliminary design stage. The pipeline, however, could be made with flow-reversal capability to distribute Sable Island gas to market if commercial reserves are found.



BUCHHEIT/PHOTON COURTESY MOBIL OIL

The public imagination remains captivated by energy-related developments, particularly offshore. The drilling-rig contract recently captured by Saint John is worth $150 million up to 1983, and may be the start of a larger rig construction programme in the region. This, however, may be the only concrete development to affect the region. Offshore developments and many other energy-related projects in the region are still only at exploration or assessment stages. Optimism must, therefore, be tempered with patience, and the time used to prepare for eventual development. ■

Construction

Interest Rate Blues

The construction industry is a vital part of the Atlantic economy. It represented an average of 8 per cent of 1981 estimated gross provincial product in the region. This sector has come on hard times recently, mostly due to record high interest rates. Prime lending rates at more than 20 per cent made borrowing for all types of construction projects very expensive. Some sectors of the construction industry are, therefore, undergoing very slow growth.

Construction which has taken place was usually protected from interest rates and would likely have taken place in 1981 in any case. One example is construction tied to government expenditures, which relies less on interest rate movements and traditionally sustains the industry in hard times.

Building permits are issued for four broad groups of construction—residential, industrial, commercial, and institutional/governmental. In residential construction for the first eight months of 1981, Nova Scotia registered the region's only increase over the same time period in 1980. Of the remaining three provinces, Newfoundland alone issued over one-fifth less residential permits in 1981, probably reflecting a slowdown after the flurry of excitement in 1979 and 1980 following announcement of the Hibernia oil discovery. In terms of actual housing starts in larger centres (more than 10,000 people), Nova Scotia also recorded the region's only increase in 1981 over 1980. A $20-million provincial programme in Nova Scotia to subsidize mortgages on new homes explains a large part of this increase.

Big industrial, commercial, and institutional projects have done much to keep Atlantic construction afloat during the first three quarters of 1981. A list of these would touch on familiar names to many people. In Newfoundland, work continues on the Upper Salmon River hydro project, scheduled for start-up in 1982. To this $155-million project, we can also add the start of construction on the $287-million project at Cat Arm on the Northern Peninsula of Newfoundland next year. There is still the prospect, of course, of the $4.5-billion Gull Island project. Commercial development is still under way in St. John's, with an easing of interest rates likely to promote further sod-breaking.

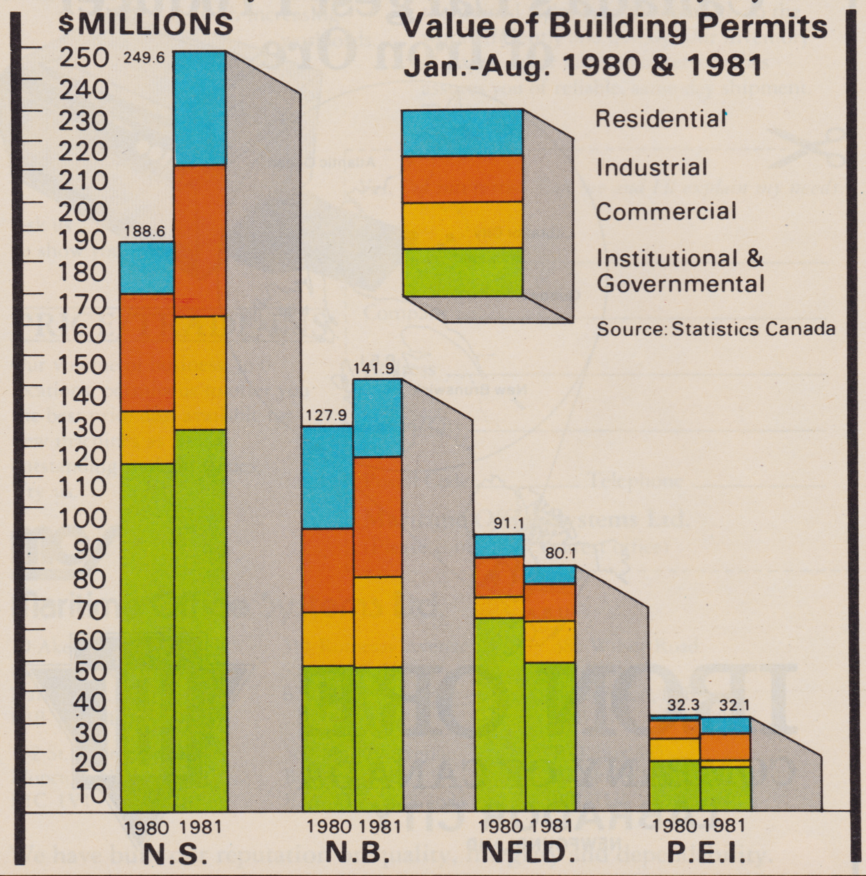
Major projects in Nova Scotia are largely concentrated in Cape Breton and the Halifax area. An exception is the Michelin Tire plant in Kings County, a $400-million project which is well on the way to completion. Michelin has also been renovating its other two plants. In Cape Breton a $96-million modernization of the Sydney Steel mill was announced in April with the federal government picking up 80 per cent of the tab, the provincial government the rest. Expansion of coal-producing capacity at Donkin is under way, and expenditures will reach $400 million by 1986. The associated Lingan power complex began construction of its fourth generator, with both third and fourth scheduled to begin operaton in 1984. In Halifax, the sod was turned for the $100-million Camp Hill Medical Complex in November to join ongoing expansion of the DND's Halifax Dockyard, and the Waterfront Development Corporation's developments. The Fairview Container Terminal received its first ship also in November.

In prospect is Dome Petroleum's major ship-building facility for ice-breaking crude carriers. Three sites are under consideration in Nova Scotia. Also related to energy developments is the possibility of a shipyard in Cape Breton to build production platforms for offshore oil and gas.

Prince Edward Island's main construction activity revolved around the new Department of Veterans' Affairs building and a new hospital. Both are in Charlottetown and progress on both in 1981 was hampered because of strikes. Charlottetown can also look forward to work beginning on a new convention centre.

Activity on major projects in New Brunswick has kept the province's construction sector ticking over in 1981. The Market Square Development in Saint John was joined late in the year by a beginning of a $21-million expansion to the Drydock. Headgear and processing facilities for the Potash Company of America's new mine near Sussex are changing the landscape in that area, and a further mine-related development, the Brunswick Mining and Smelting/Heath Steele zinc smelter at Belledune, was announced in November. In addition, the provincial government announced a $100-million program to modernize institutional and government buildings. The on-again, off-again project to build a federal penitentiary at Renous seems to be on again after a decision in the spring, and Mitel will begin construction of its Buctouche facility in 1982.

For most of 1981, construction rode on the shoulders of major projects, and this pattern is likely to continue for several years. Overall, however, the sector would benefit enormously from an easing of interest rates which would spur, in particular, residential construction and many other related sectors. Megaprojects such as the T Q and M gas pipeline and the Dome shipyard remain tantalizingly close and could benefit the entire Atlantic area as associated facilities are built. In the shorter term, however, much will depend on policies regarding interest rates. ■



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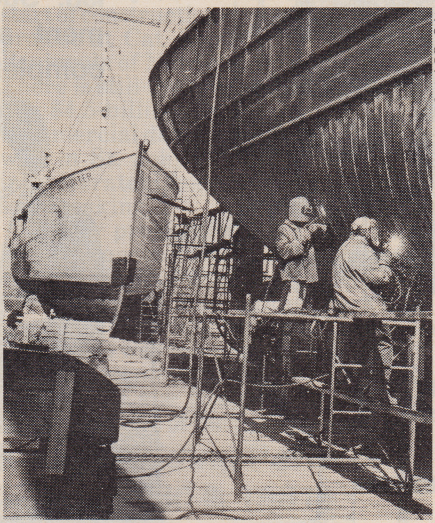
The Game of Inventory Control

A microscopic look into the Atlantic manufacturing sector, given the broader current economic conditions, reflects the necessities of tight inventory control. With low consumer spending in the North American economy, and record high interest rates, producers have been forced into the game of keeping inventory levels as close as possible to current low levels of consumer expenditures. In many cases this means operating plants at less than full capacity. The one feature which has been helping producers hold their own has been favourable exchange rates. With most of the output from the manufacturing sector geared to export markets, the low Canadian dollar has allowed Atlantic manufacturers to keep a good share of their foreign markets. However, a continuation of present market conditions could have a negative impact in production and employment levels in the near future. Given this prospect, the success of this inventory game depends on good marketing.

A review of the figures to the third quarter of 1981 reveals a pattern of sales trying to keep pace with inflation. An adjustment for inflation would indicate no major change in the volume of output generally. The provincial breakdown of total manufacturing shipments (in current dollars) shows Newfoundland with the highest growth rate to the end of August compared to the same period last year, followed by New Brunswick and Nova Scotia. The stronger position of Newfoundland comes in part from a new newsprint mill starting production this year at Stephenville, and the return to normal production levels for fish plants after last year's fishery dispute. Later in the year, however, some of those fish plants closed down. Although figures for Prince Edward Island are not available for comparison, a review of the Island's gross provincial product estimates and the other industrial sectors indicates a position somewhat below the other provinces.

In terms of the output of higher value items (food and forestry products), sales are running only marginally ahead of last year. But, as in the case of total manufacturing shipments, most of the higher value comes from higher prices. The total sales level in current dollars (unadjusted for inflation) was up by about 12 per cent at the end of August, compared to the same time last year in both New Brunswick and Nova Scotia. The Newfoundland figure for the same time comparison is up by 26 per cent in current dollars, reflecting a partial recovery from last year's fishery dispute. The sales figures for the pulp and paper mills in the region are up marginally, reflecting mostly the softening of demand for paper products in the second half of this year. In most subsectors, such as chemical products, non-metallic minerals (including structural materials such as cement), and printing and publishing, the story up to the end of August this year is of little or no change over 1980.



N.S. GOVT. SERVICES

The final outlook for this year is one of trying to keep ahead of inflation. After adjustments for inflation, the volume of output will probably indicate no real change. The key to the future expectation in regard to expansion of manufacturing output rests on trends in the U.S. economy. If this continues its present course of low consumer and capital spending, the dampening effect will reach all the way into this region. However, the preliminary expectations are that 1982 could be a turnaround year, with the possibility of improvement in consumer and capital spending which will have a positive impact on our producers.

Michelin's new plant in the Annapolis Valley will be producing in 1982, and the beginning of construction of the Mitel plant in eastern New Brunswick will give a welcome injection of high-technology industry to the region. The Saint John shipyard is forging purposefully ahead after winning one contract worth $150 million to build an offshore drilling rig (with an option on a second). The yard will also be bidding on a third rig, as well as being in close competition for the $2.6-billion contract to build patrol frigates for the Canadian Armed Services.

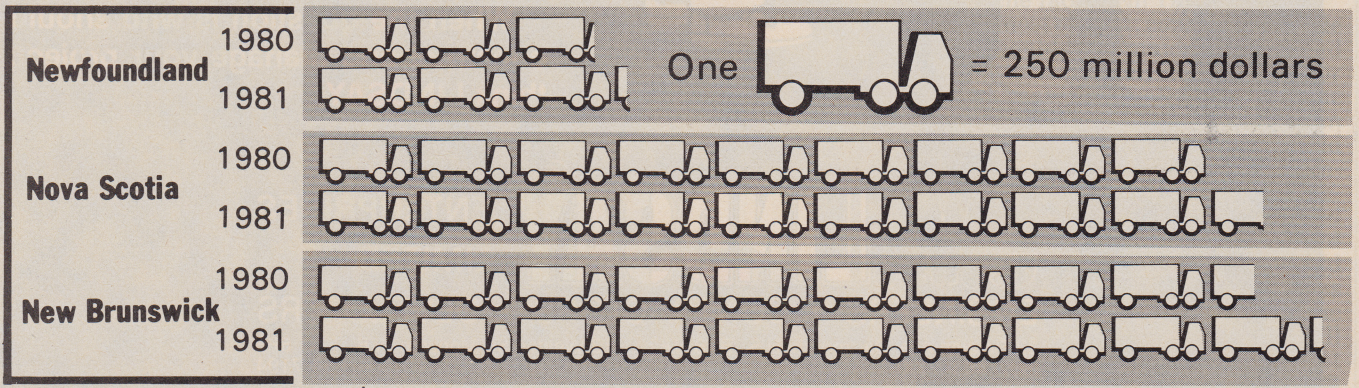
Elsewhere in the region, there is the possibility of another offshore rig yard in Nova Scotia or Newfoundland, and a decision on the precise location may be taken this winter. Even more exciting is the prospect of a shipyard to build large ice-breaking crude carriers at any one of three sites in Nova Scotia for Dome Petroleum, and an increasing demand for ship repair facilities.

In the shorter run, however, overall expectations of benefits rely on the performance of the U.S. economy, and even if this recovers in 1982, there will be a time-lag before the benefits reach the Atlantic region. The earliest anticipated effects would be in late 1982, as the regional economy chugs along in low gear. ■

VALUE OF MANUFACTURING SHIPMENT JAN.-AUG. 1980 & 1981 (in current dollars)

Note — Statistics on PEI not available due to publication restrictions

Source: Statistics Canada



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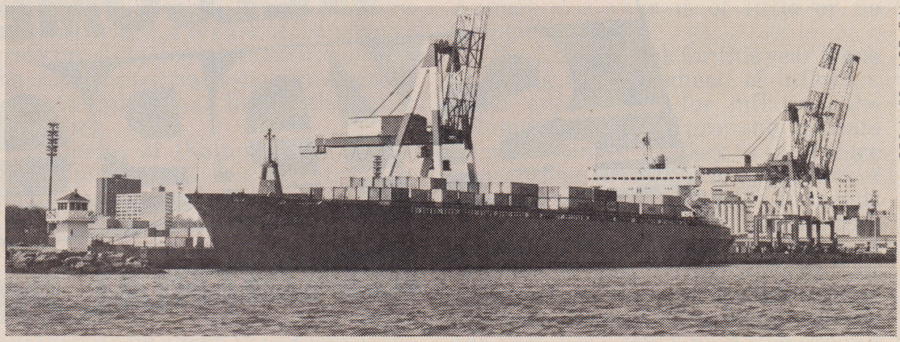
Moving Through Uncertainty


N S GOVT SERVICES

Cargoes moving through the region's three major ports began to show signs of a broader economic slowdown in the first three quarters of 1981, compared to the same period in 1980. Total containerized cargo was down by 4 per cent in Halifax and by 7.5 per cent in Saint John. In U.S. eastern seaboard ports, however, the decrease was more of the order of 20 per cent, indicating worse times to come for Atlantic port facilities. The decision of the Dart Line to move its eastern Canadian centre of operations to Montreal from Halifax came in the spring, and was followed in the fall by withdrawal of a second line shortly before the Fairview Terminal unloaded its first ship. As with many other sectors of the Atlantic economy, port managers are looking at offshore related activity to keep the ships coming in. An increase in the amount of cargo handled by St. John's is partially due to this type of activity.

The year brought bad news too for the region's rail passengers. In a series of nationwide cuts, VIA Rail discontinued the Atlantic's run from Saint John to Montreal via Maine among other cutbacks to affect the region. Despite an outpouring of public and business protests, the Atlantic took its final run in November. Days after this, CN Marine reduced its ferry service from North Sydney to Argentia significantly, removing one of two vessels from the service with the prospects of more cuts to come. CN also announced rate increases of between 14 and 16 per cent for most of the region's commodities, effective January 1, 1982.

Amidst this pessimism, Eastern Provincial Airways completed its first full year of service between Halifax and Toronto with a report of high load factors. The regional airline also announced, in November, the formation of a commuter service to link major centres in the Maritime provinces. The new airline, to be centred in Halifax, would be called Air Maritimes. In December, too, CP Air was to begin stopping at Halifax on its Toronto-Amsterdam run, to the delight of the region's Dutch community, long the unwilling victims of adventuresome and complex flight changes at London's Heathrow Airport, or between airports in Montreal.

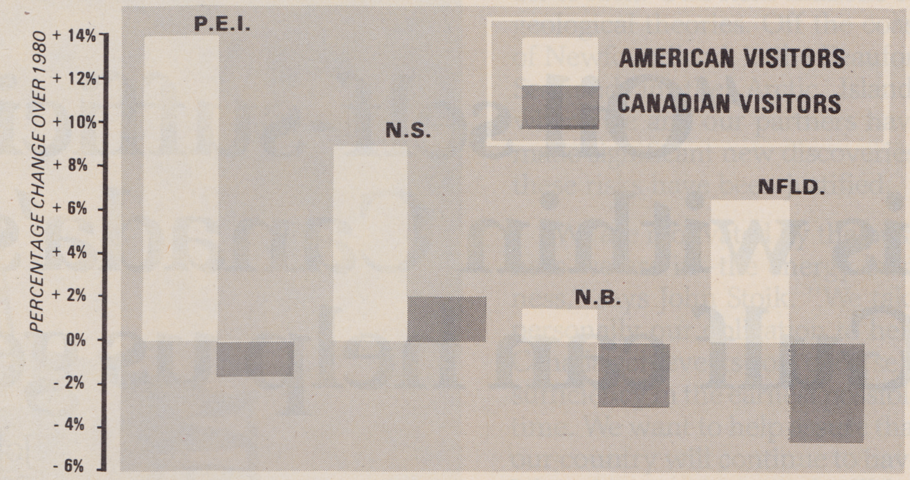
The uncertainty of the early 1980s spills over into most aspects of transportation. There are dramatic changes taking place in the region's transportation system that will affect and be affected by the fluctuating regional economy. The changes include withdrawal of services and changes in subsidies and costs. Transportation services are a crucial factor in the region's development and these changes must be evaluated carefully over the coming year. ■

Americans, Conventioneers and Curlers

The tourist season (May-September, 1981) saw the Atlantic provinces' tourism industry record a modest increase over 1980. All four provinces had a larger number of visitors from the United States, probably because of a favourable exchange rate for the U.S. dollar in Canada, as well as cheaper gasoline prices. Prince Edward Island, in particular, made a special marketing effort to attract U.S. visitors, and American visitations to that province were up by 14 per cent (about 21,000 people) over 1980. Nova Scotia and Newfoundland also recorded significant increases over 1980 (9 per cent and 6.2 per cent respectively), while New Brunswick recorded the lowest gain of 1.3 per cent. Many of the larger number of visitors to the other three provinces must pass through New Brunswick, however, which thereby captures some of the extra business.

While the four Atlantic provinces recorded gains in the actual number of U.S. vistors over 1980, only Nova Scotia recorded an increase in the actual number of visitors from other parts of Canada. For the most part, traffic from Quebec and Ontario was down compared to 1980, while increases came from intra-regional travel within the Atlantic provinces, and from the mid-Atlantic states (New Jersey and New York), while the New England states as usual made a significant contribution to tourism in the region.

CHANGES IN NUMBERS OF PEOPLE VISITING ATLANTIC CANADA OVER 1980



Source: Provincial Tourism Departments

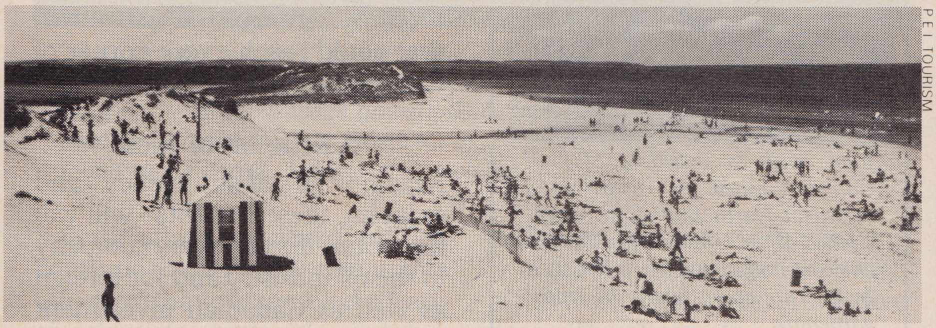
Part of the increase in Canadian visitors to Nova Scotia is certainly due to an upswing in convention business coming to Halifax. Several major conventions and other events were held in the Metro area in 1981, including the Labatt Brier National Curling Championship in March. In general, the increasing trend in this lucrative type of business will affect all four provinces as facilities are built to accommodate delegates and participants.

Although it is notoriously difficult to estimate the value of tourism to the region, total direct expenditures by visitors probably exceeded $120 million in 1981. As this amount works its way into the system, the overall benefit will be two or three times, thus giving an idea of the part tourism plays in the region.

Prospects for 1982 are good, particularly if exchange rates remain favourable. All four provinces have aggressive marketing campaigns south of the border, and an extensive network designed to facilitate trip-planning is in place. There has been more interest in bus tours as a means of travel, and this factor, with others, is also helping to extend the season beyond mid-September. Coupled with the region's natural attractions, this strategy for growth seems to hold promise for success. ■

P.E.I. TOURISM

N.S. GOVT SERVICES



P.E.I. TOURISM

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"Oil self-sufficiency is within Canada's grasp – Gulf can help us get there."

John Stoik,
President and Chief Executive Officer,
Gulf Canada Limited

It is within Canada's power to be oil self-sufficient in ten years. In becoming self-sufficient, we would not have to pay out billions of dollars to other countries for crude oil. And spending to develop new supplies of oil within Canada would stimulate the whole Canadian economy.

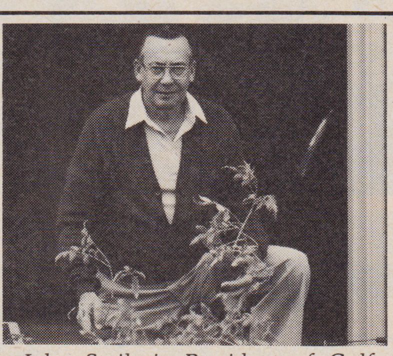
Gulf Canada's team of scientists and engineers has shown an unusual ability to find new oil. They have played a pivotal role in discoveries in Hibernia (one of Canada's largest oil finds ever), the Arctic Islands and in the Beaufort Sea. With encouragement and support, Gulf's team of experts can help move us along the road to oil self-sufficiency.

This year Canada will pay around $8 billion for foreign oil imports.

That is almost a million dollars an hour. Between now and 1985 the oil import bill will amount to at least $56 billion†.

Most of that money goes out of the country forever. It has a negative effect on our balance of payments. It creates no jobs. It generates no new national revenue.

By contrast, money invested in projects to develop new supplies of oil in Canada has a very positive effect on the Canadian economy. In fact, energy investment is a key to Canadian prosperity in the 1980's.



John Stoik is President of Gulf Canada Limited. He was born and raised in North Battleford, Sask., studied at the University of Saskatchewan, and served in the R.C.A.F. In his rare spare hours, he enjoys gardening.

Consider, for instance, just one $13 billion oil sands plant.

Most of that money would be spent *in Canada.* Skills, machinery, building material would be purchased across Canada. Jobs would be created. Many people would enjoy improved incomes and, in turn, spend on clothes, houses, food, vacations – a ripple effect that could reach every corner of the land.

"A little bit of luck"

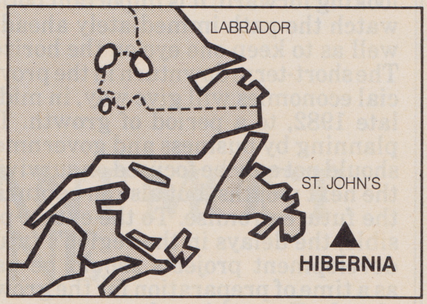
Reaching oil self-sufficiency – and enjoying these benefits – will call for a total effort by every company in the oil industry and for foreign as well as Canadian investment capital.

† To give some idea of the immense numbers involved, consider it in terms of time, say seconds. A million seconds is almost 12 days. A billion seconds is over thirty-one years.

This "circular pyramid" is one of the early concepts for bringing oil up safely from beneath the Beaufort Sea. New and bolder ideas to cope with the colossal force of the Arctic icepack are still being considered by Gulf experts. Whatever the ultimate solution, hundreds of millions of dollars will be invested before a single barrel of crude can reach the consumer.

Gulf Canada has played, and can continue to play a key role in this effort. We have assembled a team of scientists - geologists, geophysicists, engineers and other experts who have demonstrated their ability to work together as an effective team. They have played an instrumental part in some of Canada's most important oil finds. The search for and discovery of oil is an act of faith supported by knowledge, instinct, money - and a little bit of luck. Gulf risks millions on geological theories. Off the coast of Newfoundland, in the Beaufort Sea and in the Arctic Islands where we and our partners have made significant new discoveries, these risks have been justified.

"We are motivated by the business we are in - the energy business," says John Stoik. "We take personally our obligation to help Canada achieve its goal of oil self-sufficiency in the earliest possible time. We want to help assure that our country will continue to have a buoyant economy and will benefit from its wealth of natural resources."



For more than two decades Gulf experts have been looking for oil and gas in frontier areas. In the early 1970's Gulf became a major explorer of the sea bed off the coast of Newfoundland.

Until alternate energy sources are developed or until they become economically viable, the country's most urgent need is to discover new oil. All Canadians should encourage this search that will brighten our future.

GULF CANADA LIMITED

APEC
Atlantic Canada '82

The Future Perspective

To paraphrase the title of a best-selling book of some years back, Atlantic Canada suffers from Present Shock rather than Future Shock. It is impossible to avoid the reality of the present economic conditions. The next six months will be extremely hard for the region as inflation rates increase, and the recessionary impact being felt in the U.S. sweeps into Canada, depressing prosects for real growth. This is the shock of the present.

Underlying this gloomy picture remains the sense of optimism for the future. This is based on the over $30 billion of major projects on the books for the region. (These will be described in an upcoming APEC *Atlantic Report*.) Governments and businesses share a sense of frustration at the delay in launching these projects as the region pauses in the development path. In looking forward, it is important both to watch the path immediately ahead as well as to keep one eye on the horizon. The short-term downturn in the provincial economies will give way, in mid or late 1982, to a period of growth. The planning by business and government should not only be focused on surviving the next months, but also on capturing the future promise. To the extent possible, the delays in the region's future development projects should be used as a time of preparation for the growth ahead. Everything from manpower training programs to the necessary expansion of industrial plant and equipment can use this delay in development to ensure maximum preparedness.

In some aspects, the economies of the four Atlantic provinces are expected to perform better than the national average in the year ahead.

The gross national product of Canada is forecast, by APEC, to achieve only 1.5 per cent real growth in 1982. However, the economies of New Brunswick and Newfoundland are expected to grow by 2 per cent and 2.5 per cent respectively. Nova Scotia's 1982 growth should match the national average and Prince Edward Island is expected to show no real growth.

The slowdown, or recession, now being felt in the U.S. and developing in Canada is expected to remain at least until mid-1982, when a slow recovery process may begin. The low dollar value will continue to provide some strength to the resource sectors despite the similar recessionary conditions of our major customers. Newfoundland will lead the region in growth again in 1982. This growth will stem from some of its primary resource exports, increased offshore exploration activity and most significantly the potential start of a major power project. New Brunswick will hold down number two position with some of the major construction projects, such as the Mitel plant and the new zinc smelter, offsetting problems in the forest sector and general economic slowdown. Nova Scotia's growth will again reflect an expected strength in some of the primary resource industries but only a marginal increase in construction and manufacturing. The completion of the new Michelin plant will also help the economy. Despite strong gains in farm production, and tourism, the Prince Edward Island economy is expected to exhibit no real growth in 1982, as general recessionary conditions hold the Island's economy back.

Largely as a result of the new energy pricing agreements, coupled with the value of the Canadian dollar compared to the U.S. dollar, inflation will remain high in Canada for most of 1982. When the U.S. de-regulated oil prices in 1979 and allowed them to move to world prices, the inflation rate jumped sharply. We can expect to match this experience as our economy adjusts to higher oil prices. The four Atlantic provinces traditionally display higher inflation rates than the national average. Therefore, inflation as measured by the consumer price index

could range from 14.5 to 15.5 per cent for 1982. This high inflation rate in association with the general slowdown in the economy will result in another year of decline in retail sales for the region.

The number of large projects currently under way and planned for a 1982 start-up should keep employment growth up in the Atlantic region, offsetting, somewhat, the gloomy short-term outlook and expected high unemployment rates. APEC projects that new job creation in New Brunswick, Newfoundland and Nova Scotia will exceed the national average. The Canadian employment figure is only expected to increase by 1 per cent as manufacturing and service industries bear the brunt of inflation. By contrast, the opportunities in the primary resource sectors and several construction projects should provide some growth in the east. New Brunswick, with the most impressive array of major projects now under way or positioned for start-up in 1982, should experience an employment growth of 2.8 per cent.

Newfoundland, with increased exploration and related offshore activity, in conjunction with a potential start-up of a major power project, will experience the second-highest growth rate of 1.8 per cent. Nova Scotia will increase its employment by 1.2 per cent and Prince Edward Island will experience a marginal increase in employment of about 0.2 per cent.

APEC's forecasts for the economic performance of the four provincial economies in 1982 are not, therefore, as bright in the short-term as we would like. In the context of the expected economic performance of the country, however, they represent a respectable achievement. If viewed from a longer range perspective, 1982 can be seen as a pause in economic activity preceding a period of significant real growth for the Atlantic community.

There are two ways of looking ahead—one way considers what the future *might hold*, the other way looks at what the future *can hold*. It is important that we in Atlantic Canada look at what the future *can hold* because this implies identification of opportunities and action by governments and businesses to realize the promise of tomorrow. ■

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